

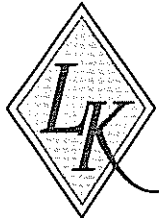
KEARSLEY COMMUNITY SCHOOLS
FLINT, MICHIGAN
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2006

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Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

August 22, 2006

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Kearsley Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kearsley Community Schools, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Kearsley Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Kearsley Community Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated August 22, 2006 on our consideration of the Kearsley Community Schools' internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information on pages II – VII, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kearsley Community Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf P.C.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

KEARSLEY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Kearsley Community Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Generally accepted accounting principles (GAAP), according to GASB 34, requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

KEARSLEY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

District Wide Financial Statements: (Continued)

These two statements report the Kearsley Community Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds and its private purpose trust funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2006 and 2005:

	<u>NET ASSETS SUMMARY</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Current Assets	\$11,932,212	\$11,710,743
Non-Current Assets	<u>10,158,605</u>	<u>10,909,982</u>
<u>TOTAL ASSETS</u>	<u>\$22,090,817</u>	<u>\$22,620,725</u>
<u>LIABILITIES</u>		
Current Liabilities	\$5,916,970	\$7,339,076
Long-Term Liabilities	<u>420,832</u>	<u>438,875</u>
Total Liabilities	\$6,337,802	\$7,777,951
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	9,879,018	10,317,561
Restricted - Capital Projects	1,240,192	261,961
Unrestricted	<u>4,633,805</u>	<u>4,263,252</u>
Total Net Assets	<u>\$15,753,015</u>	<u>\$14,842,774</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$22,090,817</u>	<u>\$22,620,725</u>

KEARSLEY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2006 and 2005, the District wide results of operations were:

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$1,709,488	\$1,635,339
Property Taxes Levied for Capital Projects	1,214,600	1,171,959
State of Michigan Unrestricted Foundation Aid	24,711,413	24,451,004
Other General Revenues	494,902	501,189
Total General Revenues	<u>\$28,130,403</u>	<u>\$27,759,491</u>
<u>Operating Grants:</u>		
Federal	1,678,867	1,530,691
State of Michigan	1,691,976	1,546,041
Other Grants	345,309	502,677
Total Operating Grants	<u>\$3,716,152</u>	<u>\$3,579,409</u>
<u>Charges for Services:</u>		
Food Service	475,895	504,303
Athletics	113,993	94,881
Daycare	514,350	569,434
Other Charges for Services	204,205	180,197
Total Charges for Services	<u>\$1,308,443</u>	<u>\$1,348,815</u>
Total Revenues	<u>\$33,154,998</u>	<u>\$32,687,715</u>
<u>EXPENSES</u>		
Instruction & Instructional Support	17,829,725	18,304,087
Support Services	11,712,124	10,009,537
Community Services	24,139	49,575
Food Service	1,045,468	966,581
Athletics	599,334	553,702
Daycare	562,593	562,513
Other Capital Projects	5,668	174,078
Interest on Long-Term Debt	13,003	20,643
Depreciation	452,703	410,356
Total Expenses	<u>\$32,244,757</u>	<u>\$31,051,072</u>
<u>INCREASE IN NET ASSETS</u>	<u>\$910,241</u>	<u>\$1,636,643</u>
<u>BEGINNING NET ASSETS</u>	<u>14,842,774</u>	<u>13,206,131</u>
<u>ENDING NET ASSETS</u>	<u><u>\$15,753,015</u></u>	<u><u>\$14,842,774</u></u>

KEARSLEY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2006, the District's Total Net Assets increased by \$910,241 to a total of \$15,753,015. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) decreased by \$438,543 during the year due to depreciation exceeding purchases of new capital assets and principal payments on related debt. The District's Unrestricted Net Assets increased by \$370,553 during the year and the restricted portion of the net assets increased by \$978,231. The restricted Net Assets consist of restricted capital projects funds that may only be used to fund capital projects. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The District's overall revenues exceeded its expenses for the year by \$910,241. The total revenues increased by \$467,283 or 1.4% over last years amounts. The major changes were increased per pupil foundation allowance as well as increased state and federal grant allocations. Expenditures increased by \$1,193,685. Major changes were due to site improvements, installation of water filtration systems and increased employer contributions to the Michigan Public School Employees Retirement System.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The District's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund increased by \$444,152 during the year with the increase coming primarily from an increase in cash. Revenues for the year increased by \$406,480 primarily from increased per pupil foundation allowance and increased state and federal grant allocations. Expenditures and other financing uses increased by \$47,194, primarily from increased employer retirement costs. The major source of general fund revenues is state aid and taxes. An analysis is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead tax levy

2. Per Student Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Kearsley Community Schools foundation allowance was \$6,902 per student for the 2005-2006 school year.

KEARSLEY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

3. Student Enrollment:

The District's student enrollment for the fall count of 2005-2006 was 3,892 students. There was a decrease of 49 students from the prior year.

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2005-2006 fiscal year was \$1,713,935, an increase of \$78,596 from the prior year.

Capital Projects Sinking Fund

The districts Capital Projects Sinking Fund balance increased by \$915,555. Sinking fund taxes levied are the primary source of revenue in the fund and they increased by \$42,641 from the previous year. Expenditures which are restricted for construction projects decreased by \$946,238 from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Actual & Original Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenue	\$29,755,826	\$30,364,987	\$30,265,568	1.71	0.33
Expenditures	29,755,826	30,375,987	29,821,416	(0.22)	1.83
<u>TOTAL</u>	<u>\$0</u>	<u>(\$11,000)</u>	<u>\$444,152</u>		

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Kearsley Community Schools amends its budget during the school year. The June, 2006 budget amendment was the final budget for the fiscal year. There were no significant variations between the original and final budget.

The variances between the actual revenues and the original and final amended budgets in the General Fund are due primarily to adjustments to various state and federal grants.

The variances between the actual General Fund expenditures and the original and final amended budgets are a result of employee salary and benefit adjustments and adjustments to state and federal grant expenditures.

KEARSLEY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

CAPITAL PROJECTS SINKING FUND BUDGETARY HIGHLIGHTS

CAPITAL PROJECTS FUND BUDGET VS. ACTUAL

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Actual & Original Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenue	\$1,272,231	\$1,277,000	\$1,277,277	0.40	0.02
Expenditures	593,378	1,011,493	299,045	49.60	70.44
<u>TOTAL</u>	<u>\$678,853</u>	<u>\$265,507</u>	<u>\$978,232</u>		

The variances between the actual revenues and the original and final amended budgets in the Capital Projects Fund are due to slightly higher property tax collections than anticipated.

The variances between the actual Capital Projects Fund expenditures and the original and final amended budgets are a result of timing differences for completion of summer projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	<u>Principal Balance 7-01-05</u>	<u>Increases 6-30-06</u>	<u>Principal Payments 6-30-06</u>	<u>Principal Balance 6-30-06</u>
Bonds Payable	\$302,506	\$0	\$22,919	\$279,587
Installment Contracts	289,915	0	289,915	0
Compensated Absences	159,288	5,962	0	165,250
<u>Total Long-Term Debt</u>	<u>\$751,709</u>	<u>\$5,962</u>	<u>\$312,834</u>	<u>\$444,837</u>

Repayment of debt decreased the School District's long-term principal obligations and, thereby increased the net assets of the School District. The School District repaid \$312,834 of long-term debt during the year ended June 30, 2006.

KEARSLEY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

B. Net Investment in Capital Assets

The District's net investment in capital assets decreased by \$751,377 during the fiscal year. This can be summarized as follows:

	Balance 7-1-05	Additions	Deductions	Balance 6-30-06
Capital Assets	\$24,823,222	\$37,910	\$0	\$24,861,132
Less: Accumulated Depreciation	(13,913,240)	(789,287)	0	(14,702,527)
<u>Net Investment Capital Assets</u>	<u>\$10,909,982</u>	<u>(\$751,377)</u>	<u>\$0</u>	<u>\$10,158,605</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

* Foundation Allowance

The Board of Education and Administration agreed to an estimate of a foundation allowance of \$7,112 per pupil for the 2006-07 fiscal year based on information received from various educational organizations such as Michigan Association of School Business Officials, Michigan Association of School Administrators, and the Michigan Association of School Boards as well as discussions local state representatives. The political debate regarding the funding of public education, the current economic climate in the State of Michigan and the gubernatorial election will all affect this estimate before the final foundation allowance is known.

* Retirement Rates

The continuing cost of health insurance to current and potential retirees continues to drive the rate increases the Michigan School Personnel Retirement System recommends to the legislature for approval. The rate is anticipated to increase to 17.74% in 2006-07 from 16.34% in 2005-06.

* The Kearsley Community Schools 2006/2007 adopted budget is as follows:

<u>REVENUE</u>	\$30,726,258
<u>EXPENDITURES</u>	<u>30,707,614</u>
<u>NET OVER BUDGET</u>	<u>\$18,644</u>

The adopted budget reflects the commitment of the Board of Education and Administration to maintain our current instructional programs and staffing levels. It is recognized that the use of unrestricted fund balance can not continue long term and the Board of Education, Administration and members of the various collective bargaining groups are beginning to look at other ways to help reduce fringe benefit costs, specifically health care, to allow the district to maintain its programs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Kearsley Community Schools.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$6,764,616
Accounts Receivable	17,310
Taxes Receivable	5,717
Due from Other Governmental Units	5,061,499
Inventory	10,438
Prepaid Expenses	72,632
Total Current Assets	<u>\$11,932,212</u>
<u>NON-CURRENT ASSETS</u>	
Capital Assets	24,861,132
Less: Accumulated Depreciation	<u>(14,702,527)</u>
Total Noncurrent Assets	<u>\$10,158,605</u>
<u>TOTAL ASSETS</u>	\$22,090,817
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	937,765
State Aid Note Payable	2,870,404
Salaries Payable	1,560,174
Accrued Expenses	370,917
Deferred Revenue	153,705
Current Portion of Long-Term Obligations	24,005
Total Current Liabilities	<u>\$5,916,970</u>
<u>NON-CURRENT LIABILITIES</u>	
Noncurrent Portion of Long-Term Obligations	<u>420,832</u>
<u>TOTAL LIABILITIES</u>	\$6,337,802
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	9,879,018
Restricted for:	
Capital Projects	1,240,192
Unrestricted	<u>4,633,805</u>
<u>TOTAL NET ASSETS</u>	<u>\$15,753,015</u>

See accompanying notes to the basic financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue & Change in Net Assets</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction	\$17,829,725	\$57,453	\$3,059,050	(\$14,713,222)
Support Services	11,712,124	130,070	142,632	(11,439,422)
Community Services	24,139	16,682	0	(7,457)
Food Service	1,045,468	475,895	514,470	(55,103)
Athletics	599,334	113,993	0	(485,341)
Daycare	562,593	514,350	0	(48,243)
Other Capital Projects	5,668	0	0	(5,668)
Interest - Long-Term Obligations	13,003	0	0	(13,003)
Depreciation - Unallocated	452,703	0	0	(452,703)
<u>TOTALS</u>	<u>\$32,244,757</u>	<u>\$1,308,443</u>	<u>\$3,716,152</u>	<u>(\$27,220,162)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				2,924,088
State Aid				24,711,413
Investment Earnings				198,197
Miscellaneous				296,705
Total General Revenues and Transfers				<u>\$28,130,403</u>
Change in Net Assets				<u>\$910,241</u>
Net Assets - Beginning - As Restated				<u>14,842,774</u>
<u>Net Assets - Ending</u>				<u>\$15,753,015</u>

See accompanying notes to the basic financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2006

	General Fund	Capital Projects Sinking Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$5,325,787	\$1,244,984	\$193,845	\$6,764,616
Accounts Receivable	16,975	0	335	17,310
Taxes Receivable	4,842	875	0	5,717
Due From Other Governmental Units	5,042,428	0	19,071	5,061,499
Due From Other Funds	0	0	9,764	9,764
Inventory	0	0	10,438	10,438
Prepaid Expenses	71,882	0	750	72,632
<u>TOTAL ASSETS</u>	<u>\$10,461,914</u>	<u>\$1,245,859</u>	<u>\$234,203</u>	<u>\$11,941,976</u>
<u>LIABILITIES</u>				
Accounts Payable	\$919,026	\$5,667	\$13,072	\$937,765
State Aid Note Payable	2,870,404	0	0	2,870,404
Due to Other Funds	9,764	0	0	9,764
Salaries Payable	1,545,968	0	14,206	1,560,174
Accrued Expenses	367,510	0	3,407	370,917
Deferred Revenue	153,705	0	0	153,705
Total Liabilities	\$5,866,377	\$5,667	\$30,685	\$5,902,729
<u>FUND BALANCES</u>				
Reserved For:				
Inventory	0	0	10,438	10,438
Capital Projects	0	1,240,192	0	1,240,192
Unreserved:				
Undesignated, Reported In:				
General Fund	4,595,537		0	4,595,537
School Service Funds	0	0	193,080	193,080
Total Fund Balances	<u>\$4,595,537</u>	<u>\$1,240,192</u>	<u>\$203,518</u>	<u>\$6,039,247</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$10,461,914</u>	<u>\$1,245,859</u>	<u>\$234,203</u>	<u>\$11,941,976</u>

See accompanying notes to the basic financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
AS OF JUNE 30, 2006

Total Governmental Fund Balances: \$6,039,247

Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported as assets in governmental
funds. The cost of the assets is \$24,861,132 and the
accumulated depreciation is \$14,702,527 10,158,605

Long-term liabilities, including bonds payable, are not due and
payable in the current period and therefore are not reported as
liabilities in the funds. Long-term liabilities at year end consist of:

Bonds Payable	\$279,587	
Compensated Absences Payable	165,250	
Total Long-Term Liabilities		<u>(444,837)</u>

TOTAL NET ASSETS -
GOVERNMENTAL ACTIVITIES \$15,753,015

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Capital Projects Sinking Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>				
Local Sources	\$2,482,451	\$1,214,600	\$1,127,109	\$4,824,160
State Sources	26,306,380	0	97,009	26,403,389
Federal Sources	1,228,155	0	450,712	1,678,867
Total Revenues	<u>\$30,016,986</u>	<u>\$1,214,600</u>	<u>\$1,674,830</u>	<u>\$32,906,416</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	17,778,860	0	0	17,778,860
Student Services	2,264,923	0	0	2,264,923
Instructional Support	1,363,965	0	0	1,363,965
General Administration	502,565	0	0	502,565
School Administration	1,979,325	0	0	1,979,325
Business Administration	593,246	0	0	593,246
Operation & Maintenance of Plant	2,687,825	0	0	2,687,825
Transportation	1,142,490	0	0	1,142,490
Support Services - Other	606,329	0	0	606,329
Community Services	24,139	0	0	24,139
Food Service	0	0	1,036,625	1,036,625
Athletics	0	0	595,790	595,790
Daycare	0	0	562,593	562,593
Debt Retirement	0	0	33,251	33,251
Capital Outlay				
Building Improvements	0	5,668	0	5,668
Loan Payments	0	293,377	0	293,377
Total Expenditures	<u>\$28,943,667</u>	<u>\$299,045</u>	<u>\$2,228,259</u>	<u>\$31,470,971</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$1,073,319	\$915,555	(\$553,429)	\$1,435,445
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers from (to) Other Funds	(547,677)	62,677	485,000	0
Other Transfers	(81,490)	0	0	(81,490)
Total Other Financing Sources (Uses)	<u>(\$629,167)</u>	<u>\$62,677</u>	<u>\$485,000</u>	<u>(\$81,490)</u>
Net Change in Fund Balance	\$444,152	\$978,232	(\$68,429)	\$1,353,955
<u>FUND BALANCE - BEGINNING</u>	<u>4,151,385</u>	<u>261,960</u>	<u>271,947</u>	<u>4,685,292</u>
<u>FUND BALANCE - ENDING</u>	<u>\$4,595,537</u>	<u>\$1,240,192</u>	<u>\$203,518</u>	<u>\$6,039,247</u>

See accompanying notes to the basic financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Total net change in fund balances - governmental funds	\$1,353,955
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	(751,377)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	312,835
Change in accrued interest on long-term liabilities	790
(Increase) in accrued compensated absences	<u>(5,962)</u>
<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u>\$910,241</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2006

	<u>Trust & Agency</u>	<u>Private Purpose Trusts</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$230,683	\$2,741	\$233,424
Investments	<u>0</u>	<u>121,894</u>	<u>121,894</u>
<u>TOTAL ASSETS</u>	\$230,683	\$124,635	\$355,318
<u>LIABILITIES</u>			
Due to Student Groups	<u>230,683</u>	<u>0</u>	<u>230,683</u>
<u>NET ASSETS - HELD IN TRUST FOR OTHERS</u>	<u>\$0</u>	<u>\$124,635</u>	<u>\$124,635</u>

See accompanying notes to the basic financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Private Purpose Trusts</u>
<u>REVENUE</u>	
Interest	\$12,716
<u>EXPENDITURES</u>	
Scholarship Awards	4,500
Other Expenditures	<u>3,814</u>
Total Expenditures	<u>\$8,314</u>
<u>CHANGE IN NET ASSETS</u>	\$4,402
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>120,233</u>
<u>NET ASSETS - END OF YEAR</u>	<u><u>\$124,635</u></u>

See accompanying notes to the basic financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
<u>REVENUES</u>				
Local Sources	\$2,143,994	\$2,484,985	\$2,482,451	(\$2,534)
State Sources	26,269,148	26,437,981	26,306,380	(131,601)
Federal Sources	1,051,852	1,193,325	1,228,155	34,830
Total Revenues	\$29,464,994	\$30,116,291	\$30,016,986	(\$99,305)
<u>EXPENDITURES</u>				
Current:				
Instruction	17,987,518	18,078,162	17,778,860	299,302
Student Services	2,175,267	2,358,856	2,264,923	93,933
Instructional Support	1,368,784	1,443,503	1,363,965	79,538
General Administration	522,770	537,812	502,565	35,247
School Administration	2,011,425	1,957,815	1,979,325	(21,510)
Business Administration	395,182	601,292	593,246	8,046
Operation & Maintenance of Plant	2,630,196	2,727,969	2,687,825	40,144
Transportation	1,450,348	1,157,907	1,142,490	15,417
Support Services - Other	619,424	595,633	606,329	(10,696)
Community Services	31,912	38,966	24,139	14,827
Total Expenditures	\$29,192,826	\$29,497,915	\$28,943,667	\$554,248
Excess of Revenues Over Expenditures	\$272,168	\$618,376	\$1,073,319	\$454,943
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers	(272,168)	(629,376)	(629,167)	209
Net Change in Fund Balance	\$0	(\$11,000)	\$444,152	\$455,152
<u>FUND BALANCE - BEGINNING</u>			4,151,385	
<u>FUND BALANCE - ENDING</u>			\$4,595,537	

See accompanying notes to the basic financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SINKING CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<u>REVENUES</u>				
Local Sources	\$1,209,231	\$1,214,000	\$1,214,600	\$600
<u>EXPENDITURES</u>				
Current:				
Building Improvements	300,000	718,115	5,668	712,447
Loan Payments	<u>293,378</u>	<u>293,378</u>	<u>293,377</u>	<u>1</u>
Total Expenditures	<u>\$593,378</u>	<u>\$1,011,493</u>	<u>\$299,045</u>	<u>\$712,448</u>
Excess of Revenues Over Expenditures	\$615,853	\$202,507	\$915,555	\$713,048
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers	<u>63,000</u>	<u>63,000</u>	<u>62,677</u>	<u>(323)</u>
Net Change in Fund Balance	<u>\$678,853</u>	<u>\$265,507</u>	<u>\$978,232</u>	<u>\$712,725</u>
<u>FUND BALANCE - BEGINNING</u>			<u>261,960</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$1,240,192</u>	

See accompanying notes to the basic financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Kearsley Community Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains three school service funds: Food Service, Athletic and Daycare Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Sinking Fund

The Capital Projects Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan. Voters in the School District renewed \$1.3 mills originally levied in 1998 for another six years now expiring on December 31, 2009 and authorized \$2.0 mills in 2001 for six years expiring on December 31, 2007 to be used for school facility improvement. The Capital Projects Sinking Fund is used to account for the acquisition, construction and renovation of facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the District for these budgetary funds were adopted to the activity level.

During the year ended June 30, 2006, the District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2006, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Credit Quality Rating	Portfolio %
Mutual Funds Bonds:				
Loomis Sayles Bond Retail Shares	\$ 7,702	7.5000	A	
Pimco Developing Local Mkts D	6,396	N/A	N/A	
Pimco Total Return Class D	18,858	5.0300	AAA	
Total Mutual Funds Bonds	\$ 32,956			27.04%
Mutual Fund Equities	72,627	N/A	N/A	59.58%
MILAF External Investment Pool - MIMAX	16,311	0.0027	AAAm	13.38%
Total fair value	<u>\$ 121,894</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>1.2543</u>		

1 day maturity equals 0.0027, one year equals 1.00.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2006, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

4) DEPOSITS AND INVESTMENTS (Continued)

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the District's investments are in mutual funds which represents 60% of the District's total investments.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$7,511,874 of the District's bank balance of \$7,715,439 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$233,424	\$ 6,998,040
Investments	<u>121,894</u>
<u>TOTAL</u>	<u>\$ 7,119,934</u>

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 230,683
Cash Private Purpose Trust	2,741
Cash – District Wide	6,764,616
Investments – Private Purpose Trust	<u>121,894</u>
<u>TOTAL</u>	<u>\$ 7,119,934</u>

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2006, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 4,756,211
Federal Grants	<u>305,288</u>
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>	<u>\$ 5,061,499</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2006, the School District had estimated claims of \$58,433 in conjunction with the program.

8) SHORT-TERM DEBT

The District borrowed \$2,800,000 at 2.92% interest per annum on August 19, 2005, from Citizens Bank on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The note was repaid August 18, 2006.

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>BALANCE</u> <u>JULY 1, 2005</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2006</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$18,515,579	\$0	\$0	\$18,515,579
Land Improvements	1,965,514	8,280	0	1,973,794
Equipment and Furniture	1,882,424	29,630	0	1,912,054
Vehicles	2,459,705	0	0	2,459,705
Totals at Historical Cost	<u>\$24,823,222</u>	<u>\$37,910</u>	<u>\$0</u>	<u>\$24,861,132</u>
Less: Accumulated Depreciation				
Buildings and Improvements	(10,888,644)	(393,000)	0	(11,281,644)
Land Improvements	(227,442)	(96,497)	0	(323,939)
Equipment and Furniture	(1,065,681)	(127,717)	0	(1,193,398)
Vehicles	(1,731,473)	(172,073)	0	(1,903,546)
Total Accumulated Depreciation	<u>(\$13,913,240)</u>	<u>(\$789,287)</u>	<u>\$0</u>	<u>(\$14,702,527)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$10,909,982</u>	<u>(\$751,377)</u>	<u>\$0</u>	<u>\$10,158,605</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 50,865
Support Services	258,022
Food Service	8,843
Athletics	18,854
Unallocated	<u>452,703</u>
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 789,287</u>

10) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2006 were \$231,931.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

11) LONG-TERM LIABILITIES

A) Durant Resolution Package Bonds

Kearsley Community Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$473,505 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2006 was \$279,587.

B) Installment Contracts

The District entered into three installment purchase contracts on December 31, 2001 totaling \$1,742,359. These notes were used to pay off installment purchase contracts dated September 26, 2000. The original notes were used for District-wide improvements. The new notes require monthly interest and principal payments and bear interest at 3.3159%. The balance at June 30, 2006 was \$0.

C) Debt service requirements at June 30, 2006, were as follows:

	Bonds Payable	Interest	Total
June 30, 2007	\$24,005	\$9,240	\$33,245
June 30, 2008	110,670	46,241	156,911
June 30, 2009	26,352	6,900	33,252
June 30, 2010	27,606	5,645	33,251
June 30, 2011	28,920	4,331	33,251
June 30, 2012-2013	62,034	4,465	66,499
<u>TOTAL</u>	<u>\$279,587</u>	<u>\$76,822</u>	<u>\$356,409</u>

D) Changes in Long-Term Liabilities

	BALANCE JULY 1, 2005	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2006	AMOUNT DUE IN ONE YEAR
<u>Governmental Activities:</u>					
Bonds Payable	\$302,506	\$0	\$22,919	\$279,587	\$24,005
Installment Contracts	289,915	0	289,915	0	0
Compensated Absences	159,288	5,962	0	165,250	N/A
<u>Total Governmental Activities</u>	<u>\$751,709</u>	<u>\$5,962</u>	<u>\$312,834</u>	<u>\$444,837</u>	<u>\$24,005</u>

The payment dates of sick days payable are undeterminable. The interest expenditures on long-term obligations for the year were \$13,793.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

12) LEASES

OPERATING LEASES

- A) On February 25, 2005, the District entered into a operating lease with Capital Advantage Leasing for two copiers. The lease is for 60 months and requires monthly payments of \$925. The total cost of the leases for the year was \$11,100.
- B) The District entered into a operating lease with Pitney Bowes for postage machine on December 12, 2002. The lease payment is \$227 per month for a period of five years. The total cost for the year was \$2,724.
- C) On July 27, 2005, the District entered into a operating lease with Capital Advantage Leasing for fifteen copiers. The lease is for 60 months and requires monthly payments of \$9,499. The total cost of the leases for the year was \$94,990.

Future minimum payments are as follows:

<u>JUNE 30</u>	<u>AMOUNT</u>
2007	\$ 126,450
2008	125,088
2009	125,088
2010	121,388
2011	18,998
<u>TOTALS</u>	<u>\$ 517,012</u>

CAPITAL LEASE

In October, 2003, the District entered into a lease with All-Lines Leasing for 2 floor cleaners. The lease is for 36 months at \$345 per month. The total cost for the year was \$4,140. Future minimum payments are as follows:

<u>JUNE 30</u>	<u>AMOUNT</u>
2007	\$ 1,380

13) DEFERRED REVENUE

On September 17, 2001, the District entered into an agreement to lease a 10,000 square foot parcel of land to Nextel Communications for the purpose of erecting a communications tower. The agreement was for a 60 month term and calls for a one time only payment of \$64,500. The current year portion of this payment is \$12,900 and is recognized in other local revenues. Future year revenue recognition will be as follows:

<u>JUNE 30</u>	<u>AMOUNT</u>
2007	\$ 2,150

14) INTERFUND ACTIVITY

Interfund balances at June 30, 2006 consisted of the following:

DUE TO	DUE FROM		
	FOOD	ATHLETICS	
	SERVICE		
	FUND	FUND	TOTAL
General Fund	<u>\$4,905</u>	<u>\$4,859</u>	<u>\$9,764</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

14) INTERFUND ACTIVITY (Continued)

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

15) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted of the following:

	TRANSFERS FROM	
	TRANSFERS TO	GENERAL FUND
Athletics Fund		\$485,000
Capital Projects Fund		62,677
<u>TOTAL</u>		<u>\$547,677</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them (2) move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

16) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPSERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPSERS. That report may be obtained by writing to the MPSERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005 and 16.34 percent for the period October 1, 2005 through June 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS pension plan for the years ended June 30, 2006, 2005 and 2004 were \$2,869,910, \$2,520,011 and \$2,358,493, respectively.

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

17) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty, theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. The pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from significant adverse financial impact.

18) GOVERNMENTAL REGULATION

Substantially all of the school district's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the school district expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the school district. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

19) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2006, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

In January, 2006, the federal regulation for arsenic amounts in the drinking water will change. In order to comply with the new regulation, the school will be purchasing a water filtration system. The cost to complete this project will be \$180,181.

20) SUBSEQUENT EVENTS

On August 18, 2006, the District borrowed \$2,500,000 at 3.7502% per annum from Citizens Bank on a State Aid Anticipation Note. The note proceeds will be used to meet cash flow needs for the 2006-2007 fiscal year.

OTHER SUPPLEMENTAL
INFORMATION

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2006

	Special Revenue Fund	Durant Debt Retirement Fund	Total Other Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$193,845	\$0	\$193,845
Accounts Receivable	335	0	335
Due from Other Governmental Units	19,071	0	19,071
Due from Other Funds	9,764	0	9,764
Inventory	10,438	0	10,438
Prepaid Expenses	750	0	750
	<u>\$234,203</u>	<u>\$0</u>	<u>\$234,203</u>
<u>TOTAL ASSETS</u>			
	<u>\$234,203</u>	<u>\$0</u>	<u>\$234,203</u>
<u>LIABILITIES</u>			
Accounts Payable	\$13,072		\$13,072
Salaries Payable	14,206	0	14,206
Accrued Expenses	3,407	0	3,407
Total Liabilities	<u>\$30,685</u>	<u>\$0</u>	<u>\$30,685</u>
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	10,438	0	10,438
Unreserved:			
Undesignated, Reported In:			
Special Revenue Fund	193,080	0	193,080
Total Fund Balances	<u>\$203,518</u>	<u>\$0</u>	<u>\$203,518</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$234,203</u>	<u>\$0</u>	<u>\$234,203</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Fund	Durant Debt Retirement Fund	Total Other Governmental Funds
<u>REVENUES</u>			
Local Sources	\$1,127,109	\$0	\$1,127,109
State Sources	63,758	33,251	97,009
Federal Sources	450,712	0	450,712
Total Revenues	<u>\$1,641,579</u>	<u>\$33,251</u>	<u>\$1,674,830</u>
<u>OTHER FINANCING SOURCES</u>	<u>485,000</u>	<u>0</u>	<u>485,000</u>
Total Revenues & Other Financing Sources	<u>\$2,126,579</u>	<u>\$33,251</u>	<u>\$2,159,830</u>
<u>EXPENDITURES</u>			
Food Service	1,036,625	0	1,036,625
Athletics	595,790	0	595,790
Daycare	562,593	0	562,593
Debt Retirement			
Principal	0	22,919	22,919
Interest	0	10,332	10,332
Total Expenditures	<u>\$2,195,008</u>	<u>\$33,251</u>	<u>\$2,228,259</u>
Net Change in Fund Balance	<u>(\$68,429)</u>	<u>\$0</u>	<u>(\$68,429)</u>
<u>NET ASSETS - BEGINNING</u>	<u>271,947</u>	<u>0</u>	<u>271,947</u>
<u>NET ASSETS - ENDING</u>	<u>\$203,518</u>	<u>\$0</u>	<u>\$203,518</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUND
AS OF JUNE 30, 2006

	Food Services Fund	Athletic Fund	Daycare Fund	Total
<u>ASSETS</u>				
Cash and Cash Equivalents	\$140,910	\$16,491	\$36,444	\$193,845
Accounts Receivable	335	0	0	335
Due from Other Governmental Units	19,071	0	0	19,071
Due from Other Funds	4,905	4,859	0	9,764
Inventory	10,438	0	0	10,438
Prepaid Expenses	200	100	450	750
<u>TOTAL ASSETS</u>	<u>\$175,859</u>	<u>\$21,450</u>	<u>\$36,894</u>	<u>\$234,203</u>
<u>LIABILITIES</u>				
Accounts Payable	\$1,837	\$9,621	\$1,614	\$13,072
Salaries Payable	4,320	3,919	5,967	14,206
Accrued Expenses	1,036	940	1,431	3,407
Total Liabilities	\$7,193	\$14,480	\$9,012	\$30,685
<u>FUND BALANCES</u>				
Fund Balance - Reserved for Inventory	10,438	0	0	10,438
Fund Balance - Unreserved and Undesignated	158,228	6,970	27,882	193,080
Total Fund Balance	\$168,666	\$6,970	\$27,882	\$203,518
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$175,859</u>	<u>\$21,450</u>	<u>\$36,894</u>	<u>\$234,203</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Food Services Fund	Athletic Fund	Daycare Fund	Total
<u>REVENUES</u>				
<u>Local Sources</u>				
Cafeteria Sales	\$475,895	\$0	\$0	\$475,895
Athletic Activities	0	113,993	0	113,993
Tuition	0	0	514,350	514,350
Other Local Revenues	17,976	0	4,895	22,871
Total Local Sources	<u>\$493,871</u>	<u>\$113,993</u>	<u>\$519,245</u>	<u>\$1,127,109</u>
<u>State Sources</u>				
State Reimbursements	63,758	0	0	63,758
<u>Federal Sources</u>				
Headstart	19,139	0	0	19,139
Federal Reimbursements	373,512	0	0	373,512
Commodities	58,061	0	0	58,061
Total Federal Sources	<u>\$450,712</u>	<u>\$0</u>	<u>\$0</u>	<u>\$450,712</u>
Total Revenues	<u>\$1,008,341</u>	<u>\$113,993</u>	<u>\$519,245</u>	<u>\$1,641,579</u>
<u>OTHER FINANCING SOURCES</u>				
Transfers from General Fund	0	485,000	0	485,000
Total Revenues & Other Financing Sources	<u>\$1,008,341</u>	<u>\$598,993</u>	<u>\$519,245</u>	<u>\$2,126,579</u>
<u>EXPENDITURES</u>				
Salaries - Professional	44,335	77,425	207,753	329,513
Salaries - Non-Professional	292,511	261,989	119,495	673,995
Insurances	69,588	9,356	24,915	103,859
Fica, Retirement, Etc.	90,933	78,737	83,458	253,128
Other Benefits	3,600	0	3,013	6,613
Purchased Services	21,120	88,120	62,602	171,842
Supplies and Materials	502,949	37,676	50,883	591,508
Capital Outlay	6,520	29,870	2,043	38,433
Other	5,069	12,617	8,431	26,117
Total Expenditures	<u>\$1,036,625</u>	<u>\$595,790</u>	<u>\$562,593</u>	<u>\$2,195,008</u>
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</u>	(\$28,284)	\$3,203	(\$43,348)	(\$68,429)
<u>FUND BALANCE - BEGINNING OF YEAR</u>	196,950	3,767	71,230	271,947
<u>FUND BALANCE - END OF YEAR</u>	<u>\$168,666</u>	<u>\$6,970</u>	<u>\$27,882</u>	<u>\$203,518</u>

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2006

REVENUES FROM
Local Sources

Current Taxes	\$1,709,488
Earnings on Investments and Deposits	198,197
Tuition	74,135
Rental of School Property	31,999
Medicaid	62,031
Contributions	60,449
Other Local Revenues	346,152
Total Revenues from Local Sources	<u>\$2,482,451</u>

State Sources

State Aid - Membership - Sec. 20	24,711,413
At Risk	602,245
MI School Readiness	107,283
Special Education	654,567
Durant	47,350
Vocational Education	74,317
Grants from ISD	109,205
Total Revenues from State Sources	<u>\$26,306,380</u>

Federal Sources

Title I	418,046
Technology Literacy Challenge	9,851
Title V	2,405
Improving Teacher Quality	122,032
Other Grants from ISD	31,769
Special Education - Flowthrough	615,690
Preschool - Flowthrough	10,728
Medicaid	17,634
Total Revenues from Federal Sources	<u>\$1,228,155</u>
Total Revenues	<u>\$30,016,986</u>

OTHER FINANCING SOURCES

County Special Education Tax	<u>248,582</u>
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TOTAL REVENUES AND OTHER FINANCING SOURCES
\$30,265,568

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

INSTRUCTION

Basic Programs

Buffey Elementary

Salaries - Professional	\$910,592
Salaries - Non-Professional	31,093
Insurances	218,528
Fica, Retirement, Etc.	229,066
Other Benefits	1,500
Purchased Services	15,347
Supplies and Materials	26,248
Capital Outlay	5,872
Other	1,339
Total Buffey Elementary	<u>\$1,439,585</u>

Dowdall Elementary

Salaries - Professional	959,566
Salaries - Non-Professional	30,072
Insurances	225,106
Fica, Retirement, Etc.	244,475
Other Benefits	1,920
Purchased Services	15,185
Supplies and Materials	28,343
Capital Outlay	9,003
Other	1,413
Total Dowdall Elementary	<u>\$1,515,083</u>

Fiedler Elementary

Salaries - Professional	870,285
Salaries - Non-Professional	46,795
Insurances	205,389
Fica, Retirement, Etc.	223,049
Other Benefits	2,336
Purchased Services	16,225
Supplies and Materials	28,442
Capital Outlay	5,670
Other	1,739
Total Fiedler Elementary	<u>\$1,399,930</u>

Weston School

Salaries - Professional	1,154,480
Salaries - Non-Professional	29,419
Insurances	268,602
Fica, Retirement, Etc.	285,953
Other Benefits	2,250
Purchased Services	16,925
Supplies and Materials	40,641
Capital Outlay	11,541
Other	1,339
Total Weston School	<u>\$1,811,150</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

INSTRUCTION (Continued)Basic Programs (Continued)Middle School

Salaries - Professional	\$2,074,291
Salaries - Non-Professional	72,360
Insurances	506,160
Fica, Retirement, Etc.	518,366
Other Benefits	3,357
Purchased Services	21,451
Supplies and Materials	61,856
Capital Outlay	92,604
Other	6,280
Total Middle School	<u>\$3,356,725</u>

High School

Salaries - Professional	3,113,175
Salaries - Non-Professional	85,085
Insurances	619,417
Fica, Retirement, Etc.	771,100
Other Benefits	36,097
Purchased Services	78,947
Supplies and Materials	127,851
Capital Outlay	137,112
Other	4,679
Total High School	<u>\$4,973,463</u>

Preschool - Weston

Salaries - Professional	48,044
Salaries - Non-Professional	6,931
Insurances	15,399
Fica, Retirement, Etc.	12,843
Supplies and Materials	12,351
Capital Outlay	4,079
Total Preschool - Weston	<u>\$99,647</u>

Summer School - Paro

Salaries - Professional	18,170
Salaries - Non-Professional	1,191
Fica, Retirement, Etc.	4,507
Total Summer School - Paro	<u>\$23,868</u>

Total Basic Programs	\$14,619,451
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KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

INSTRUCTION (Continued)

ADDED NEEDS

Special Education

Salaries - Professional	\$866,380
Salaries - Non-Professional	351,177
Insurances	172,843
Fica, Retirement, Etc.	290,593
Other Benefits	8,500
Purchased Services	6
Supplies and Materials	27,435
Other	780
Total Special Education	<u>\$1,717,714</u>

Compensatory Education

Salaries - Professional	360,050
Salaries - Non-Professional	336,847
Insurances	85,622
Fica, Retirement, Etc.	165,455
Other Benefits	3,750
Purchased Services	1,786
Supplies and Materials	11,072
Total Compensatory Education	<u>\$964,582</u>

Vocational Education

Salaries - Professional	245,691
Salaries - Non-Professional	15,715
Insurances	57,319
Fica, Retirement, Etc.	62,603
Purchased Services	5,148
Supplies and Materials	9,537
Capital Outlay	81,100
Total Vocational Education	<u>\$477,113</u>

Total Added Needs	<u>\$3,159,409</u>
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<u>Total Instruction</u>	\$17,778,860
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SUPPORT SERVICES

STUDENT SERVICES

Salaries - Professional	1,314,152
Salaries - Non-Professional	192,615
Insurances	255,860
Fica, Retirement, Etc.	356,516
Other Benefits	4,560
Purchased Services	89,768
Supplies and Materials	22,162
Capital Outlay	29,290
Total Student Services	<u>\$2,264,923</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

SUPPORT SERVICES (Continued)

INSTRUCTIONAL STAFF

Salaries - Professional	\$600,314
Salaries - Non-Professional	248,770
Insurances	162,457
Fica, Retirement, Etc.	199,300
Other Benefits	10,530
Purchased Services	69,781
Supplies and Materials	49,315
Capital Outlay	22,338
Other	1,160
Total Instructional Staff	<u>\$1,363,965</u>

GENERAL ADMINISTRATION

Salaries - Professional	190,330
Salaries - Non-Professional	49,924
Insurances	28,484
Fica, Retirement, Etc.	55,959
Other Benefits	3,925
Purchased Services	124,217
Supplies and Materials	20,144
Capital Outlay	6,255
Other	23,327
Total General Administration	<u>\$502,565</u>

SCHOOL ADMINISTRATION

Salaries - Professional	956,506
Salaries - Non-Professional	403,421
Insurances	208,716
Fica, Retirement, Etc.	316,912
Other Benefits	32,220
Purchased Services	16,269
Supplies and Materials	45,281
Total School Administration	<u>\$1,979,325</u>

BUSINESS OFFICE

Salaries - Professional	52,413
Salaries - Non-Professional	104,197
Insurances	47,984
Fica, Retirement, Etc.	36,014
Purchased Services	44,673
Other	307,965
Total Business Office	<u>\$593,246</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

SUPPORT SERVICES (Continued)

OPERATION & MAINTENANCE OF PLANT

Salaries - Professional	\$26,853
Salaries - Non-Professional	308,932
Insurances	59,051
Fica, Retirement, Etc.	101,403
Other Benefits	2,811
Purchased Services	1,279,529
Supplies and Materials	893,417
Capital Outlay	15,007
Other	822
Total Operation and Maintenance of Plant	<u>\$2,687,825</u>

TRANSPORTATION

Salaries - Professional	54,204
Salaries - Non-Professional	502,421
Insurances	42,452
Fica, Retirement, Etc.	147,983
Other Benefits	200
Purchased Services	102,518
Supplies and Materials	288,049
Capital Outlay	2,088
Other	2,575
Total Transportation	<u>\$1,142,490</u>

OTHER SUPPORT SERVICES

Salaries - Professional	62,764
Salaries - Non-Professional	236,844
Insurances	45,883
Fica, Retirement, Etc.	70,053
Other Benefits	3,805
Purchased Services	167,985
Supplies and Materials	3,058
Capital Outlay	14,271
Other	1,666
Total Other Support Services	<u>\$606,329</u>

Total Support Services	\$11,140,668
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KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

COMMUNITY SERVICES

Salaries - Non-Professional	\$17,670
Fica, Retirement, Etc.	3,033
Purchased Services	1,808
Supplies and Materials	1,628
Total Community Services	<u>\$24,139</u>

Total Expenditures	\$28,943,667
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OTHER FINANCING USES

Land Improvements	330,072
Transfers to Other Funds	547,677
Total Other Financing Uses	<u>\$877,749</u>

TOTAL EXPENDITURES AND OTHER
FINANCING USES

	<u>\$29,821,416</u>
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KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2006

STUDENT ACTIVITY	Due to (From) Student Groups July 1, 2005	Receipts	Disbursements	Due to (From) Student Groups June 30, 2006
Adm Office	\$1,122	\$922	\$1,974	\$70
Admin-Flow Through	0	2,391	2,391	0
Alcohol, Tobacco & Other Drugs	150	0	150	0
AMS X-Team	297	0	0	297
Armstrong Art	717	1,217	1,671	263
Armstrong Band	593	1,950	2,268	275
Armstrong Chess Club	40	0	0	40
Armstrong Choir	7	0	0	7
Armstrong Cluster #1	1,061	14,468	15,413	116
Armstrong Cluster #2	524	15,201	12,923	2,802
Armstrong Cluster #3	1,356	10,280	10,883	753
Armstrong Cluster #4	281	131	56	356
Armstrong Cluster #5	92	0	42	50
Armstrong Cluster #6	28	259	0	287
Armstrong Cluster #7	96	15,516	15,263	349
Armstrong Cluster #8	1,156	18,099	18,900	355
Armstrong Cross County	334	660	480	514
Armstrong Drama Club	549	3,510	1,665	2,394
Armstrong Flow Through	5,723	14,779	16,835	3,667
Armstrong Flower Fund	144	820	648	316
Armstrong KATS	35	100	0	135
Armstrong Language Arts	862	361	187	1,036
Armstrong Money Matters	2,425	1,008	1,814	1,619
Armstrong National Junior Honor	424	1,653	1,615	462
Armstrong Office	2,088	3,089	2,927	2,250
Armstrong Science Dept	3,664	2,572	2,865	3,371
Armstrong Social Studies	771	5,925	6,185	511
Armstrong Student Incentive	1,705	0	0	1,705
Armstrong Student Senate	1,516	3,249	2,922	1,843
Armstrong Yearbook	2,982	10,969	9,788	4,163
Athletic Office Account	4,405	920	356	4,969
Athletic Office Fund	189	16,333	16,333	189
Baseball	310	2,136	2,410	36
Boy Athletics	146	0	0	146
Boys Basketball Team	348	9,742	5,886	4,204
Boys Cross Country	0	361	0	361
Boys Track	783	1,035	908	910
Buffey Beautification	184	0	0	184
Buffey Computer Supp	164	59	0	223
Buffey Field Trips	28	0	0	28
Buffey Flower Fund	207	485	498	194
Buffey Library	649	3,740	3,103	1,286
Buffey Office	64	910	772	202
Buffey Student Senate	1,098	577	307	1,368
Burgtorf Office	26,165	33,643	34,347	25,461

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2006

STUDENT ACTIVITY	Due to (From) Student Groups July 1, 2005	Receipts	Disbursements	Due to (From) Student Groups June 30, 2006
Cheerleading	\$2,206	\$20,807	\$15,206	\$7,807
Class of 2004	291	0	0	291
Class of 2005	5,969	0	1,364	4,605
Class of 2006	3,067	21,926	19,046	5,947
Class of 2007	2,981	3,656	731	5,906
Class of 2008	4,622	2,963	1,271	6,314
Class of 2009	0	2,202	1,493	709
Closeup DC Trip	0	30,627	30,612	15
Davison C-A Co-Op Enrichment	1,285	1,685	995	1,975
Dowdall Office	1,662	7,449	8,591	520
Dowdall School Store	0	7	7	0
Dowdall Student Council	179	0	44	135
Fiedler Office	198	6,756	6,540	414
Fiedler Read-a-Thon	1,839	2,181	2,430	1,590
Fiedler School Store	153	0	0	153
Girls Basketball Team	18	523	523	18
Girls Track	214	1,813	1,746	281
Golf	0	1,980	1,664	316
Hornet's Nest	10,790	48,134	47,279	11,645
HS Art	126	3,499	3,607	18
HS Auto Shop	1,111	10,479	10,395	1,195
HS Band	16	0	0	16
HS Broadcasting	281	1,567	1,284	564
HS Business Profession	295	0	0	295
HS Career Academy	65	0	0	65
HS Chess Club	934	3,113	2,848	1,199
HS Choir	2,327	5,091	5,990	1,428
HS Drama	2,478	5,900	7,133	1,245
HS Football	1,805	1,216	2,708	313
HS Girls Tennis	0	150	150	0
HS Journalism	1,184	5,917	5,475	1,626
HS Jr. National Honor Society	505	0	103	402
HS Library	47	1,004	1,024	27
HS Literary Magazine	200	0	0	200
HS National Honor Society	464	6,781	4,180	3,065
HS NYC Choir Trip	0	33,172	32,260	912
HS Office Activity	4,114	11,728	8,315	7,527
HS Physical Ed Dept	433	0	134	299
HS SADD	236	328	217	347
HS Science	1,579	8,320	8,963	936
HS Ski Club	161	363	376	148
HS Softball Team	724	1,873	1,477	1,120

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2006

STUDENT ACTIVITY	Due to (From) Student Groups July 1, 2005	Receipts	Disbursements	Due to (From) Student Groups June 30, 2006
HS Student Senate	\$5,737	\$10,333	\$9,193	\$6,877
HS Technology	1,782	3,496	2,907	2,371
HS Testing	210	3,088	2,976	322
HS World Languages	607	1,004	781	830
HS VICA	87	55	0	142
HS Yearbook	4,845	56,019	39,011	21,853
KATS Activity	337	0	0	337
Kearsley Christmas Charity	6,600	15,128	15,755	5,973
Michael Lafia Scholarship	0	1,000	1,000	0
Office Flowthrough	0	1,055	422	633
Paro Co-Op	2,567	9,326	8,774	3,119
Paro Office	2,535	1,399	1,722	2,212
Past Board Membership Association	1,347	90	20	1,417
Savings Interest	13,219	5,478	0	18,697
Special Services	735	2,224	2,129	830
Swim Team	0	7,628	7,628	0
Sydney Campbell Mem. Playground	13,564	29,987	23,356	20,195
Volleyball	1,780	5,560	6,591	749
Weston Office	1,951	5,985	5,843	2,093
Wrestling	1,083	7,352	7,757	678
<u>TOTAL</u>	<u>\$179,027</u>	<u>\$618,487</u>	<u>\$566,831</u>	<u>\$230,683</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

<u>BURGTORF SCHOLARSHIP FUND</u>		
<u>BALANCE - JULY 1, 2005</u>		\$103,581
<u>REVENUE</u>		
Interest		12,057
<u>EXPENDITURES</u>		
Scholarship Awards		3,500
Other Expenditures		3,814
Total Expenditures		<u>\$7,314</u>
<u>BALANCE - JUNE 30, 2006</u>		<u>\$108,324</u>
<u>KERBY SCHOLARSHIP FUND</u>		
<u>BALANCE - JULY 1, 2005</u>		\$16,652
<u>REVENUE</u>		
Interest		659
<u>EXPENDITURES</u>		
Scholarship Awards		<u>1,000</u>
<u>BALANCE - JUNE 30, 2006</u>		<u>\$16,311</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
FOR THE YEAR ENDED JUNE 30, 2006

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$473,505

1998 DURANT RESOLUTION PACKAGE BONDS

	PRINCIPAL REQUIREMENT	INTEREST RATE	INTEREST REQUIREMENT	TOTAL FISCAL YEAR REQUIREMENTS
<u>PAYMENT DATE - MAY 15TH</u>				
2007	\$24,005	4.761353%	\$9,240	\$33,245
2008	110,670	4.761353%	46,241	156,911
2009	26,352	4.761353%	6,900	33,252
2010	27,606	4.761353%	5,645	33,251
2011	28,920	4.761353%	4,331	33,251
2012	30,296	4.761353%	2,954	33,250
2013	31,738	4.761353%	1,511	33,249
<u>TOTAL</u>	<u>\$279,587</u>		<u>\$76,822</u>	<u>\$356,409</u>



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

August 22, 2006

To the Board of Education of
Kearsley Community Schools

In planning and performing our audit of the financial statements of Kearsley Community Schools for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Kearsley Community Schools' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

1. Budgets and Budgetary Accounting

1968 PA 2 provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2006, Kearsley Community Schools incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

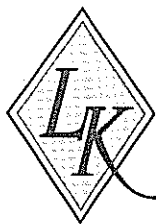
FUTURE ISSUES

1. MDE Changes Enforcement of Budgeting Act

The Michigan Department of Education (MDE) recently notified all Michigan School Districts that it was implementing changes in its enforcement of the Uniform Budgeting and Accounting Act. From their perspective, MDE is making this policy change in an effort to elevate awareness of the importance of proper budgeting and the need for district procedures to be in place to detect budget violations. MDE has not aggressively pursued these violations in past years, but has stated their intention to change that policy retroactively to the 2004-05 fiscal year. For that year, the Department has indicated that they are only focusing on the General Fund and will only act upon *Total Expenditures* violations that exceed 1% of the Total Expenditures budget and *Total Other Financing Uses* violations that exceed 1% of the Total Other Financing Uses budget.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (overspending your budget)
- Ending the fiscal year with a deficit (negative fund balance), and
- Adopting a budget that, when implemented, would put the district in a deficit.



Kearsley Community Schools

Page 2

August 22, 2006

FUTURE ISSUES (Continued)

- The Department is also currently considering that a violation of the Act also includes the situation where the district did not achieve their full revenue budget and, at the same time, depleted the district fund balance beyond what had been approved by the school board.

Amending your budget before June 30 of each year is the main way to avoid receiving a violation letter from the Department.

2. GASB Statement No. 45

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Kearsley Community Schools, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

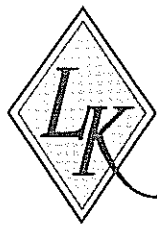
The basic premise of GASB No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- * Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)
- * Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- * Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

3. Cash Management of Federal Grants

The advance provisions of the Cash Management Improvement Act (CMIA) requires that advances be limited to three days cash needs. The Michigan Department of Education will no longer allow thirty day cash advances for ongoing programs.



Kearsley Community Schools

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August 22, 2006

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Kearsley Community Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Lewis & Knopf P.C.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS